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SUBJECT: LEE MYUNG-BAK ADVISERS DEFINE RECIPROCITY

Classified By: Charge d' Affairs Bill Stanton. Reasons 1.4 (b,d).

11. (C) Summary: During a January 17 dinner with the Charge, Nam Sung-wook and Suh Jae-jean, two close advisers to President-elect Lee Myung-bak, commented on the incoming administration's reciprocity-based criteria for engaging the North and their dim outlook for progress in the Six-Party Talks. Nam said that President-elect Lee had seemed receptive to Nam's suggestion that potential economic cooperation projects with the North be divided into four different categories based on the amount of public funds required and the extent of denuclearization. Nam and Suh contrasted this strategy with that of President Roh, who wanted to increase engagement unconditionally. Both were optimistic about adopting more of a hard-line approach toward North Korea, with Suh insisting that the North had to improve relations with the U.S. to ensure regime survival. They were, however, pessimistic about significant progress in the Six-Party Talks this year, because, they assessed, North Korea would likely want to hold out for a new U.S. administration. End Summary.

S-N ECONOMIC COOPERATION CRITERIA

12. (C) Nam spoke at length about the efforts the transition team is making to inject reciprocity into South-North relations. The new administration, Nam said, was likely to move forward on projects that require largely private funds but would delay those that required government spending. Instead, serious investment in the North would be connected to denuclearization and other improvements in the security situation. Nam said that President-elect Lee appeared to agree with Nam's suggestion, during a recent briefing, to divide North-South initiatives into four categories:

-- Category A could go forward immediately. This included projects like tours to Kaesong City (initiated in December) which are funded entirely by the private sector;

-- Category B required both private- and public-sector investment, like the Mount Baekdu tourism project, which would require significant public investment in infrastructure. These could go forward, but would require some progress on the nuclear issue;

-- Category C included big infrastructure projects, such as

improving the Kaesong-to-Sinuiju railroad, which preliminary surveys had indicated would cost about USD 1 million per kilometer, or USD 365 million. These projects would require significant progress on denuclearization;

-- and, Category D required a significant improvement in the overall security situation. The example he gave (perhaps the only such item) was the West Sea Special Peace Zone that would require dealing with issues such as the Northern Limit Line (NLL).

13. (C) The transition team had been thoroughly evaluating a number of proposed investment projects. Nam said that if North Korea would make progress on 30 percent of the denuclearization goals, then some economic support would be forthcoming. It was necessary to take a step-by-step approach to engaging the North, Nam said, in order to induce Pyongyang to cooperate. These steps for engagement would include first economic support, followed by trade, then improving health standards, and finally preserving the environment.

14. (C) Asked about the potential for fertilizer shipments to the North that usually occur in the early spring and about other assistance, Nam said the Lee Myung-bak team had not yet decided how much aid the new government would be willing to contribute, nor had there been efforts to get in touch with DPRK authorities. Suh predicted that monitoring the aid disbursements would be a big issue between the North and the South because it was so important to the President-elect. Nam said that Lee Myung-bak wanted significantly more family reunions, proposing that South Koreans be allowed to visit their relatives in their hometowns in the North taking rice and money (in contrast to the occasional group reunions at Mt. Kumgang where contact and exchanges of goods were limited).

15. (C) Nam reiterated other transition officials' comments that Lee Myung-bak will take a more pragmatic approach to engaging the North. The key difference in policy between the outgoing and incoming administrations was that President Roh's engagement policy was unconditional, while President-elect Lee wanted to inject reciprocity and was also concerned about the financial costs of engagement. The Sunshine Policy was unbalanced and needed to be amended, Nam said, and Lee would adjust it pragmatically.

North Korean Intentions

16. (C) Both Nam and Suh were optimistic that North Korea would eventually denuclearize and improve relations with the U.S. Suh said that North Korea had to normalize relations with the U.S. because it had no other means to survive. The Banco Delta Asia issue had shown the North how dependent it actually was on the United States. North Korea's only leverage, Suh said, was the nuclear card. Eventually it would give it up, but it wanted to maximize the price. Suh also said North Korea was heavily dependent on China but worried about Chinese influence, so it was were pursuing relations with Washington.

17. (C) That said, both advisers were pessimistic that the North would be motivated to make much progress this year. Nam said there was an 80-90 percent chance that little or no progress would be made in Six-Party Talks until after the U.S. election. He said the North Koreans would hope to gain more from a Democratic administration. The Charge pointed out that there was a great deal of Democratic Party support for the Bush Administration's policy in the Six-Party Talks, and even a possible change in party in the White House was unlikely to alter the U.S. approach significantly.

18. (C) Suh said that the North Koreans blamed the U.S. for the stalled negotiations. The North claimed the U.S. had not kept its end of the bargain, notably removing them from the State Sponsors of Terrorism list. The Charge said that

Washington was prepared to abide fully by the Six-Party Talks agreements, including removing North Korea from the two relevant lists, provided North Korea also kept its commitments by providing a complete and correct declaration of its nuclear programs. Nam predicted that North Korea might do something provocative -- like a missile test -- in March or April. Suh disagreed, however, and said the North would follow the agreement because it did not have a choice. It had no other way to survive, he insisted.

¶9. (C) As an aside, Suh mentioned that he had just completed a book about the stability of the DPRK regime. In it he emphasized the importance of the military, as many South Korean commentators do, but added that the DPRK military was now self-financed, with various military units operating their own trading companies. He said his information on the military, including the claim that there was no central government appropriation for the military, came from several high-ranking North Korean defectors.

Human Rights

¶10. (C) The transition team's strategy was to talk about DPRK human rights issues, Nam said, knowing that they will be improved over time through the process of opening North Korea to the world. Suh noted that the North was very sensitive about human rights but there had been evidence in the past that Pyongyang had responded to the international community's criticisms. Furthermore, South Koreans "demand" that their government raise the human rights issue, Suh claimed. Because North Korea was dependent on South Korean aid, raising the human rights issue, he stated, should have a positive effect.

80 Percent Collapse of Socialism

¶11. (C) Suh said about 80 percent of North Korea's socialist system had collapsed, and had been replaced by a chaotic informal market economy. These private mechanisms had prevented mass starvation, Suh said, because they were more efficient than the socialist food distribution system. Asked about NGO reports that some North Koreans had been arrested for market activities, Suh said the North Korean police did not bother people who were licensed to trade; those arrested were too poor to obtain a license or pay the necessary bribe.

MOU Dissolution

¶12. (C) Nam said he thought that dissolving the Ministry of Unification (MOU) was a mistake because the President-elect would have to spend a lot of political capital convincing the National Assembly to pass the restructuring proposal. Nam anticipated that Kim Dae-jung, who elevated the organization to a ministry when he was President, would also lobby hard against merging MOU functions into the foreign ministry. (Note: On January 25, former President Kim Dae-jung publicly criticized the transition team's proposal to abolish MOU. He said the existence of the ministry signals South Korea's strong desire for unification. End note.)

COMMENT

¶12. (C) Nam and Suh's optimism that the North will ultimately respond favorably to the new administration's harder line is shared by other interlocutors on the transition team. All indications are that Lee Myung-bak also believes that "reciprocity" should be the basis of the ROKG's policy toward the North. The remarks and actions of President-elect Lee over the past month or so show that he is

considerably more hard-line toward the North than he appeared
to be as Candidate Lee. End Comment.
STANTON